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SUBJECT: TREASURY OFFICIALS VISIT ISTANBUL

¶1. SUMMARY: (SBU) US Treasury Department officials Joanna Veltri and Jason Weiss had a series of meetings in Istanbul on March 19th & March 20th with financial analysts and private sector representatives. They discussed Turkey's worrisome financing needs, prospects for an IMF agreement and the overall impact of the ongoing economic crisis on the private sector. All interlocutors voiced their concern about the widening central government budget deficit, the foreign borrowing needs of the Turkish private sector, and the fate of the IMF deal. All are still banking on an IMF deal after local elections, and don't even want to think about the consequences if it does not occur. Almost all the analysts with whom we spoke expect nearly a double digit contraction in GNP for 4Q '08 and 1Q '09. Positive growth before the last quarter of 2009 is out of the question. Their annual GNP estimates for 2009 suggest a contraction of between 4 percent and 7 percent. If all goes well, 1.5 percent to 2.5 percent growth for 2010 is attainable END SUMMARY.

TURKISH BANKS ARE SOUND, BUT THE REAL SECTOR IS VULNERABLE
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¶2. (SBU) The CEO of Sabanci Holding, Ahmet Dorduncu, and his Chief Economist Barbaros Ineci said they saw the first signs of the crisis in 2006, and since then have prepared the holding's annual budgets very conservatively, with the possibility of a global crisis in mind: as a result they have been very successful. The holding is financially very liquid, and well positioned to buy attractively priced assets, particularly in the energy sector. Dorduncu said people are queuing up at their door to sell their energy licenses.

¶3. (SBU) Dorduncu and Ineci said that in Turkey, unlike many other countries, the heaviest impact of the global financial crisis was felt in the real sector, rather than in banking, The Turkish banking sector is in very sound shape and current non performing loan (NPL) ratios are manageable at 4.2 percent; they believe that even a 9-10 percent rate would not cause serious trouble. However, they expect the rollover rate for bank foreign debt to be around 60-70 percent in 2009, and to be financed at higher interest rates: Libor 500-600 basis points, versus Libor 100 before the crisis. As for the real sector, they said a shortage of funding for small and medium enterprises (SMEs) is a big problem. Giants like Koc and Sabanci can find funding whenever they need it, whereas SMEs are struggling to obtain financing, both locally and from overseas. The officials said special attention must be paid to efforts to reform Turkey's SMEs. Economist Ineci said it would be a waste of time and money to re-shape the global economy to its pre-crisis contours, since those very contours led to the current collapse. Ineci believes that much of the "wealth" creation in recent years was artificial, and therefore the recent cratering of the finance sector was inevitable.

FINANCIAL ANALYSTS AWAIT AN IMF DEAL

¶4. (SBU) Almost all the financial analysts with whom Veltri and Weiss spoke were very disappointed by the GOT's performance in handling the crisis. Cem Akyurek of Citibank said that Turkey, because of its relatively healthy banking sector, had a comparative advantage over many of its emerging market peers at the start of the crisis. An orthodox, and early IMF program that met the country's external financing needs would have done wonders, he commented, but the GOT did just the opposite. Confidence now is very low, and the job at hand has become a lot more difficult. The only good thing to come from this mismanagement is falling inflation. All analysts still expect an IMF deal after the March 29 elections, and before this summer. They believe that the failure to lock in an IMF deal will certainly lead to disaster. Baturlap Candemir of EFG Securities bluntly said the only thing that keeps the dollar at 1.7TL and interest rates at 14% is the conviction by market players that a deal will be reached with the IMF. If the players change their minds, Candemir thinks the dollar will reach 2TL and interest rates will rise to 18-20%.

¶5. (SBU) Gulden Atabay at Express Invest said that some things need to be re-negotiated with the IMF, since the Turkish economy has changed greatly since January. Central budget figures for the first two months of 2009 are terrible, and the deficit over the period has already reached the year-end target level. GOT needs to severely cut expenditures after the elections, and even if they do, the deficit estimate for year-end will be 5 percent of GNP: absent an IMF deal, Atabay warned, the budget deficit will be 7 percent of GNP.

COMMENT

¶6. (SBU) Analysts also complained about the mismanagement of economic policies by certain ministers in the cabinet, particularly Ministers Simsek and Ekren. Murat Ucer of Global Source said the problem is not that these ministers do not comprehend the gravity of GOT's deteriorating budget numbers: the problem is that they are not strong enough to tell the Prime Minister to back off from his program of rampant pre-election spending.

Wiener